# ONA POWER CORP.

## Consolidated Interim Financial Statements

## For the Three and Six Months Ended March 31, 2011

(Unaudited-Prepared by Management)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying consolidated interim financial statements of the Company for the three and six months ended March 31, 2011 have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor

**ONA POWER CORP.**

**CONSOLIDATED BALANCE SHEETS**

**(Unaudited - expressed in Canadian dollar)**

| | | March 31, 2011 | | September 30, 2010 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | $ | 57,756 | $ | 199,549 |
| HST receivable | | 6,055 | | 0 |
| Short term investment (Note 6) | | 130,000 | | 0 |
| **Total current assets** | | 193,811 | | 199,549 |
| Equipment (Note 3) | | 241 | | 1,043 |
| **Total Assets** | $ | 194,052 | $ | 200,592 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 33,926 | $ | 270,255 |
| Due to related parties | | - | | 2,423 |
| **Total liabilities** | | 33,926 | | 272,678 |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | | |
| Share capital (Note 4b) | | 22,781,024 | | 22,581,024 |
| Contributed surplus (Note 4e) | | 6,409,046 | | 6,165,546 |
| Deficit | | (29,029,944) | | (28,818,656) |
| **Total shareholders' equity (deficiency)** | | 160,126 | | (72,086) |
| **Total liabilities and shareholders' equity (deficiency)** | $ | 194,052 | $ | 200,592 |

**Going concern (Note 1)**

**Subsequent event (Note 7)**

Approved by the Board of Directors:

*"Lucky Janda"*
Director

*"Rana Vig"*
Director

See accompanying notes to the consolidated interim financial statements

**ONA POWER CORP.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**
**(Unaudited-expressed in Canadian dollar)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Amortization | $ 261 | $ 620 | $ 802 | $ 1,240 |
| Consulting and management fees | 5,000 | 34,696 | 5,000 | 78,796 |
| Office and general | 1,146 | 4,242 | 2,856 | 11,130 |
| Occupancy and administration | 10,000 | 15,000 | 10,000 | 30,000 |
| Professional fees | 5,351 | 25,086 | 7,142 | 28,286 |
| Stock-based compensation | 43,500 | - | 43,500 | - |
| Transfer agent and filing fees | 2,315 | 4,968 | 7,215 | 14,056 |
| Travel | - | - | - | 6,007 |
| | (67,573) | (84,612) | (76,515) | (169,515) |
| Impairment of resource property interests (Note 7 ) | (134,773) | - | (134,773) | - |
| Loss from continuing operations | (202,346) | (84,612) | (211,288) | (169,515) |
| **Discontinued operations (Note 5)** | | | | |
| Loss from discontinued operations, net of taxes | - | (595,839) | - | (939,867) |
| | - | (595,839) | - | (939,867) |
| **Loss for the period** | (202,346) | (680,451) | (211,288) | (1,109,382) |
| **Deficit, beginning of period** | (28,827,598) | (22,777,880) | (28,818,656) | (22,348,949) |
| **Deficit, end of period** | $ (29,029,944) | $ (23,458,331) | $ (29,029,944) | $ (23,458,331) |
| **Loss per share from continuing operations, basic and diluted** | $ (0.00) | $ (0.00) | $ (0.00) | $ (0.01) |
| **Loss per share from discontinued operations, basic and diluted** | $ (0.00) | $ (0.03) | $ (0.00) | $ (0.05) |
| **Weighted average number of shares outstanding, basic and diluted** | 49,637,017 | 18,792,573 | 45,907,591 | 18,792,573 |

**ONA POWER CORP.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited-expressed in Canadian dollar)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|---|---|
| **CASH PROVIDED BY (USED IN)** | | | | |
| **Operating Activities** | | | | |
| Net loss for the period from continuing operations | $ (202,346) | $ (84,612) | $ (211,288) | $ (169,515) |
| Adjusted for items not involving cash: | | | | |
| Amortization | 261 | 620 | 802 | 1,240 |
| Stock-based compensation | 43,500 | - | 43,500 | - |
| Impairment of resource property interests (Note 7) | 134,773 | - | 134,773 | - |
| Changes in non-cash working capital items: | | | | |
| Amounts receivable and prepaid expense | (6,055) | (7,993) | (6,055) | (7,835) |
| Accounts payable and accrued liabilities | (47,020) | (134,583) | (236,329) | (338,225) |
| Cash used in operating activities of continuing operations | (76,887) | (226,568) | (274,597) | (514,335) |
| Cash used in operating activities of discontinued operations | - | (1,634) | - | 167,870 |
| | (76,887) | (228,202) | (274,597) | (346,465) |
| **Investing Activities** | | | | |
| Increase of resouce property interests | (134,773) | - | (134,773) | - |
| Acquisition of short term investment | (130,000) | - | (130,000) | - |
| Cash used in investing activities of continuing operations | (264,773) | - | (264,773) | - |
| Cash used in investing activities of discontinued operations | - | - | - | (231,038) |
| | (264,773) | - | (264,773) | (231,038) |
| **Financing Activities** | | | | |
| Due to related parties | (963) | - | (2,423) | - |
| Issuance of shares - private placement | 400,000 | - | 400,000 | - |
| Cash provided by financing activities of continuing operations | 399,037 | - | 397,577 | - |
| Cash used in financing activities of discontinued operations | - | - | - | - |
| | 399,037 | - | 397,577 | - |
| **Decrease in cash during the period** | 57,377 | (228,202) | (141,793) | (577,503) |
| Effect of exchange rate changes on cash | - | (2,029) | - | (4,254) |
| Cash, beginning of period | 379 | 310,053 | 199,549 | 661,579 |
| Cash, end of period | 57,756 | 79,822 | 57,756 | 79,822 |
| Represented by: | | | | |
| Cash - continuing operations | $ 57,756 | $ 28,423 | $ 57,756 | $ 28,423 |
| Cash - discontinued operations | - | 51,399 | - | 51,399 |
| | $ 57,756 | $ 79,822 | $ 57,756 | $ 79,822 |
| **Supplementary Cash Flow Information** | | | | |
| Cash paid for income taxes for continuing operation | $ - | $ - | $ - | $ - |
| Cash paid for interest for continuing operations | $ - | $ - | $ - | $ - |

See accompanying notes to the consolidated interim financial statements

**ONA POWER CORP.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(Unaudited-expressed in Canadian dollar)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|---|---|
| **Net loss** | $ (202,346) | $ (680,451) | $ (211,288) | $ (1,109,382) |
| **Other comprehensive income** | | | | |
| Unrealized gain (loss) on translation of self-sustaining subidiary | - | (334,032) | - | (616,634) |
| **Comprehensive Loss** | $ (202,346) | $ (1,014,483) | $ (211,288) | $ (1,726,016) |

See accompanying notes to the consolidated interim financial statements

**ONA POWER CORP.**
**CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME**
**(Unaudited-expressed in Canadian dollar)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|---|---|
| **Balance, beginning of period** | $ - | $ 1,757,883 | $ - | $ 2,040,485 |
| Other Comprehensive Income : | | | | |
| Unrealized translation adjustments | - | (334,032) | - | (616,634) |
| **Balance, end of period** | $ - | $ 1,423,851 | $ - | $ 1,423,851 |
| | | | | |
| **Ending balance of accumulated other comprehensive income comprises of:** | | | | |
| Unrealized translation adjustments | $ - | $ 1,423,851 | $ - | $ 1,423,851 |
| **Balance, end of period** | $ - | $ 1,423,851 | $ - | $ 1,423,851 |

## 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Ona Power Corp. (the "Company") was incorporated under the Business Corporation Act of Alberta on August 31, 1998 and was continued to a British Columbian company on January 30, 2006. The Company changed its name to ONA Power Corp. on July 16, 2009 (formerly Ona Energy Inc.). The Company's shares are publicly traded on the Frankfurt Exchange and Canadian National Stock Exchange ("CNSX").

The Company's principal business was acquisition and development of power generation in China. On August 31, 2010, the Company entered into an agreement to dispose all of its 60% ownership of its operating subsidiary, Yongxing Power Plant Corporation ('YPPC") (Notes 5). After the disposition, the Company is actively seeking other business opportunities. On February 18, 2011, the Company acquired interests in two potential oil wells located in Tennessee, USA. Resource properties exploration and development has become the Company's principal business activities since then.

**Basis of presentation**

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") pursuant to the recommendations of the Canadian Institute of Chartered Accountants ("CICA") on interim financial statements, and do not include all the disclosures required for annual financial statements under Canadian GAAP. However, these consolidated interim financial statements follow the same accounting policies and methods of application as the Company's most recent audited annual financial statements. These consolidated interim financial statements should be read in conjunction with the Company's most recent audited consolidated financial statements for the year ended September 30, 2010, which are available on www.sedar.com.

Operating results for the three and six months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2011 or for any other period.

**Going concern**

The Company incurred net loss of $211,288 for the six months ended March 31, 2011, had an accumulated deficit of $29,029,944, and had recurring losses since inception. The Company may not have sufficient funds to sustain its operations over the next twelve months. Management is considering all possible financing alternatives, including equity and debt financing to finance the future operations. The ability to continue operating as a going concern is dependent on raising additional funding to develop successful businesses. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. These circumstances lead to substantial doubt as to the ability of the Company to meet its obligations as they become due and, accordingly, as to the appropriateness of the use of accounting principles applicable to a going concern.

These consolidated interim financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern, which assumes that the Company will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations. These consolidated interim financial statements do not include any adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary if the Company were unable to continue as a going concern.

## 2. CHANGES IN ACCOUNTING POLICIES

These consolidated interim financial statements follow the same accounting policies and methods of application as the Company's most recent audited consolidated annual financial statements for the year ended September 30, 2010. The Company has not changed its accounting policies since then.

**Comparative Information**

Certain comparative balances have been reclassified to conform to the current period's presentation.

**(Unaudited-expressed in Canadian dollar)**

## 2. CHANGES IN ACCOUNTING POLICIES (Continued)

**New Accounting Pronouncements Not Yet Adopted**
Future accounting changes announced by CICA but not yet adopted by the Company are as follows:

International Financial Reporting Standards

In 2006, the Accounting Standards Board of Canada ("ACSB") ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by publicly accountable entities, with International Financial Reporting Standards ("IFSR") over a five-year transition period. The ACSB has developed and published a detailed implementation plan, with changeover required for fiscal years beginning on or after January 1, 2011. Because the Company has a fiscal year ended on September 30, the Company will adopt IFRS commencing October 1, 2011, and the adoption of IFRS will require the restatement for comparative purposes of amounts reported by the Company for the year ending September 30, 2011. The Company is in the process of executing an IFRS conversion plan and does not expect material impacts as a result of the IFRS conversion.

Business Combination

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests which replace CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company believes there are no material impacts on adoption of these accounting standards.

## 3. EQUIPMENT

The Company's equipment used in continuing operations is as follows:

| | | **March 31, 2011** | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Equipment | $10,812 | $ 10,571 | $241 |

| | | **September 30, 2010** | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Equipment | $10,812 | $ 9,769 | $1,043 |

## 4. SHARE CAPITAL

**a) Authorized**
The authorized share capital of the Company consists of unlimited voting common shares without par value and unlimited preference shares without par value.

**b) Issued and outstanding**
In January 2011, the Company completed a private placement to raise gross proceeds of $400,000 by issuing 8,000,000 security units at $0.05/unit. Each unit consists of one common share and one share purchase warrant of the Company. Each share purchase warrant entitles the holder to purchase a common share of the Company at $0.05 for a period of five years. The Company allocated $200,000 to share capital and $200,000 to contributed surplus (Note 4e) to account for the issuance of the share

(Unaudited-expressed in Canadian dollar)

## 4. SHARE CAPITAL (Continued)

### b) Issued and outstanding (continued)

purchase warrants. The fair value of the 8,000,000 share purchase warrants ($200,000) is estimated by using the Black-Scholes option pricing with the following assumptions: Risk-free interest rate of 2.46%, dividend yield of 0%, expected volatility of 230% and expected life of 5 years.

No finder's fee is paid for this private placement. The Company will use the proceeds for its operations.

The continuity of the Company's issued and outstanding common shares is as follows:

| | Number of shares | | Amount |
|---|---|---|---|
| **Balance, at September 30, 2010** | 42,259,239 | $ | 22,581,024 |
| Private placement, January 2011 | 8,000,000 | | 200,000(A) |
| **Balance, at March 31, 2011** | 50,259,239 | $ | 22,781,024 |

(A) Net of value allocated to warrants of $200,000.

The Company has not issued preferred shares since inception and did not have outstanding preferred shares as at March 31, 2011.

### c) Warrants outstanding

The status of the Company's outstanding share purchase warrants as at March 31, 2011 and September 30, 2010 are as follows:

| Expiry Date | Exercise Price | Balance: September 30, 2010 | Issued (Exercise) | (Expired) | Balance: March 31, 2011 |
|---|---|---|---|---|---|
| March 10, 2011 | $ 2.50 | 3,506,553 | - | (3,506,553) | - |
| March 10, 2011 | $ 3.75 | 761,051 | - | (761,051) | - |
| August 11, 2011 | $ 0.20 | 10,333,300 | - | - | 10,333,300 |
| August 13, 2011 | $ 0.40 | 1,000,000 | - | - | 1,000,000 |
| September 27, 2012 | $ 0.075 | 23,466,666 | - | - | 23,466,666 |
| January 7, 2016 | $ 0.050 | - | 8,000,000 | - | 8,000,000 |
| Total | | 39,067,570 | 8,000,000 | (4,267,584) | 42,799,966 |
| Weighted Average Exercise Price | | $ 0.41 | | | $ 0.11 |

On March 31, 2011, the weighted average remaining life of outstanding warrants was 1.81 years (September 30, 2010: 1.50 years).

**(Unaudited-expressed in Canadian dollar)**

## 4. SHARE CAPITAL (Continued)

### d) Stock options

The Company has stock option plans that allow it to grant options to its employees, officers, directors. On March 1, 2011, 725,000 stock options were granted to various consultants, directors, and officers. These stock options have an exercise price of $0.05 per share and are exercisable for five years. The fair value of the options at the date of grant was estimated at $0.06 per option ($43,500 totaling) by using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 2.6% |
| Dividend yield | 0% |
| Expected volatility | 230% |
| Expected life | 5 years |

The options were fully vested upon issuance. As a result, the Company recorded $43,500 stock-based compensation expenses for the quarter ended March 31, 2011. The continuity of the stock options outstanding is as follows:

| Expiry Date | Exercise Price ($) | September 30, 2010 | Granted | March 31, 2011 |
|---|---|---|---|---|
| March 1, 2016 | 0.05 | - | 725,000 | 725,000 |

On March 31, 2011, the weighted average exercise price and weighted average remaining life of the Company's outstanding stock options was $0.05/share 4.92 years respectively.

### e) Contributed surplus

The continuity of the Company's contributed surplus balance is as follows:

| | | Amount |
|---|---|---|
| Balance, September 30, 2010 | $ | 6,165,546 |
| Issuance of warrants in private placement (Note 4b) | | 200,000 |
| Stock-based compensation (Note 4d) | | 43,500 |
| **Balance, March 31, 2011** | **$** | 6,409,046 |

## 5. DISCONTINUED OPERATIONS

In July 2010, Foothill Enterprise Ltd. ("Foothill") issued a notice of default to the Company requesting an immediate repayment of principal and accrued interest, on the convertible debentures, totaling approximately $6,700,000. The Company did not have the liquidity and financial resources to meet the repayment demand. The Company reached an agreement with Foothill to fully settle the convertible debentures by assigning its 60% interest in YPPC and outstanding loans receivable from YPPC of approximately of $9,050,000 and paying $1,500,000 cash to Foothill. The settlement was completed on August 31, 2010. As a result, the Company did not have assets or liabilities from its discontinued operations as at March 31, 2011.

The operating results of the discontinued operations for the three and six months ended March 31, 2011 and 2010 are summarized as follows:

(Unaudited-expressed in Canadian dollar)

## 5. DISCONTINUED OPERATIONS (Continued)

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | March 31, 2011 | March 31, 2010 | March 31, 2011 | March 31, 2010 |
| Revenue | - | 2,783,906 | - | 7,147,546 |
| Loss | - | 595,839 | - | 939,867 |

In the event of a successful sale of YPPC, Foothill will pay the Company the proceeds of the sale minus the following: (i) the amount of the Foothills Debenture plus accrued interest as at July 31, 2010 less the $1,500,000 cash payment paid by the Company; and (ii) an administrative fee of CAD $100,000.

## 6. SHORT TERM INVESTMENT

The Company's short term investments consisted solely a guaranteed income certificate ("GIC") issued by a Canadian chartered bank. The GIC has an interest of 0.9% per annum and will mature on January 5, 2012.

## 7. RESOURCE PROPERTIES INTERESTS

On February 18, 2011, the Company entered into an agreement with Keblo Energy LLC to purchase interests in two potential oil wells on the Doug Norris and Eddie Dean Smith leases located in Fentress and Pickett Counties, Tennessee, USA. The Company is to receive 50% working interest and 40% net revenue interest (collectively the "Interest") in these two oil wells. The Company has paid $49,916 (US$50,000) for the Interest of each oil well (totaling $99,832 or US$100,000), and incurred $34,941 for the Eddie Dean Smith Property's exploration activities commenced during the quarter ended March 31, 2011.

Drilling of the first well on the Eddie Dean Smith property was completed during the quarter ended March 31, 2011. Management has determined it to be a non-commercial well and the Eddie Dean Smith Property is considered impaired.

Subsequent to the quarter ended March 31, 2011, the Company completed drilling to its Doug Norris Property in May 2011. The drilling result does not shows commercial potential. As a result, the Company has written off the acquisition cost of both resource properties and the exploration cost incurred as at March 31, 2011. As a result, the Company has recorded $134,773 loss from impairment of resource property interests for the quarter ended March 31, 2011 accordingly.

The continuity of the Company's resource properties is as follows:

| | September 30, 2010 | Addition | Cost Recovery | Impairment | March 31, 2011 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Doug Norris Property | | | | | |
| Acquisition | - | 49,916 | - | (49,916) | - |
| Exploration | - | - | - | - | - |
| Eddie Dean Smith Property | | | | | |
| Acquisition | - | 49,916 | - | (49,916) | - |
| Exploration | - | 34,941 | - | (34,941) | - |
| Total | - | 134,773 | - | (134,773) | - |

## 8. TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the six months ended March 31, 2011 that are not otherwise disclosed elsewhere in these consolidated interim financial statements are as follows:

a) During the six months ended March 31, 2011, management fees of $5,000 (2010 –$19,500) and occupancy cost of $10,000 (2010-$30,000) were charged by companies with a common director of the Company.

b) As at March 31, 2011, the Company owed $nil (September 30, 2010-$2,423) to various shareholders of the Company. The loans are unsecured, non-interesting bearing and without specific terms of repayment.

c) On March 31, 2011, $5,000 trade payable due to a company with a common director of the Company was included in the Company's accounts payable and accrued liabilities balance (2010 - $nil). This payable is unsecured, non-interesting bearing and without has the normal trade terms.

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.